

**PUBLIC DISCLOSURE**

September 10, 2001

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**GRANITE SAVINGS BANK**

26 BROADWAY  
ROCKPORT, MA 01966

DIVISION OF BANKS  
ONE SOUTH STATION  
BOSTON, MA 02110

<p><b>NOTE:</b> This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p>
--

## GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires the Division of Banks (Division) to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the needs of its entire assessment area, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its assessment area.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **GRANITE SAVINGS BANK** prepared by the Massachusetts Division of Banks, the institution's supervisory agency.

### **INSTITUTION'S CRA RATING: This institution is rated "Satisfactory"**

The overall CRA rating of Satisfactory is based on the level of performance in the five performance criteria of the small institution examination procedures: Loan-to-Deposit Ratio, Lending in Assessment Area, Lending to Borrowers of Different Incomes, Geographic Distribution of Loans, and Fair Lending.

The bank's average net loan-to-deposit ratio over the past two years is 80.7 percent and is considered to exceed the standards of satisfactory performance.

A substantial majority (91.9 percent) of the bank's loans were originated within the assessment area, which demonstrates the bank's commitment to lending within its community.

The bank's performance with respect to borrower income is considered reasonable, with 31.4% of the originations made to borrowers of low and moderate incomes.

The geographic distribution of loans within census tracts of different income levels is considered satisfactory.

Fair Lending performance is also considered to meet the standards of satisfactory performance and there have been no CRA related complaints since the previous examination.

## **PERFORMANCE CONTEXT**

### **Description of Institution**

Granite Savings Bank is a small savings institution chartered by the Commonwealth of Massachusetts in 1884. As of June 30, 2001, Granite Savings Bank had total assets of approximately \$50 million, \$35 million of which was in the form of loans. The bank's main office is located at 26 Broadway in Rockport, Massachusetts. The bank has no other full service branch office; however, a mortgage center is located nearby at 42 Broadway in Rockport. The bank's hours are Monday through Friday 8:00 a.m. to 4:00 p.m. and Saturday 8:00 a.m. to noon. The bank maintains an Automated Teller Machine (ATM) at the main office, which is linked to the Cirrus, NYCE, AMEX, MasterCard, Discover, The Exchange, and SUM networks.

Granite Savings Bank offers a variety of loan products including fixed rate and adjustable rate mortgage loans, construction loans, personal loans, home equity loans, home improvement loans, second mortgage loans, passbook loans and automobile loans.

The table below depicts the composition of the bank's loan portfolio based on the FDIC Call Report of Condition.

<b>Loan Portfolio as of June 30, 2001</b>		
Type of Loans	\$ (000's)	% of Total Loans
Construction & Land Development	\$580	1.7%
Residential Real Estate		
a. 1-4 Family Mortgages	\$27,448	79.0%
b. Home Equity Lines	\$3,911	11.3%
Multifamily	\$150	0.4%
Commercial Loans		
a. Commercial Real Estate	\$2,273	6.5%
Consumer Loans		
a. Loans to Individuals	\$388	1.1%
Other Loans		
Total	\$34,750	100.0%

Source: FDIC Call Report of Condition, 6/30/01

As shown in the table above, residential real estate is the bank's primary form of credit activity. Loans secured by one-to-four family residential properties account for approximately 79.0 percent of all outstanding credit. Home equity lines of credit are next with 11.3 percent, followed by commercial real estate with 6.5 percent.

Based on aggregate HMDA data for 1999, Granite Savings Bank ranked 8th among all HMDA reporting lenders within its defined assessment area and held 2.7 percent of the market share. There were 238 HMDA reporting mortgage lenders active within the assessment area in 1999.

In 1999, the top five mortgage lenders within the bank's defined assessment area were: (1) Cape Ann Savings Bank; (2) Gloucester Co-operative Bank; (3) Countrywide Home Loans; (4) Rockport National Bank; and (5) Fleet National Bank. These top five lenders held a 30.5 percent market share of all mortgage loan originations reported under the Home Mortgage Disclosure Act (HMDA).

The most recent Community Reinvestment Act (CRA) evaluation, performed by the FDIC as of April 5, 1999, assigned the bank a "Satisfactory" CRA rating. The previous evaluation performed by the Commonwealth of Massachusetts as of September 29, 1997 resulted in a "Satisfactory" CRA rating.

### **Description of Assessment Area**

The Community Reinvestment Act (CRA) requires financial institutions to define an assessment area within which the bank will focus its lending efforts. The Division of Banks evaluates the institution's CRA performance based on the defined assessment area.

Granite Savings Bank defines its assessment area as the Town of Rockport and the City of Gloucester, Massachusetts. This assessment delineation places the bank's designated area within the Boston MA-NH Metropolitan Statistical Area (MSA).

According to 1990 US Census Data, Granite Savings Bank's assessment area has a total population of 36,185 individuals. The assessment area consists of 11 census tracts. Census tracts are defined as either low, moderate, middle or upper-income, based upon the income of a majority of residents as a percentage of median Family Household Income (FHI) for the MSA. The Boston MA-NH MSA Median Family Household Income (FHI) was \$62,700 for 1999, \$65,500 for 2000 and \$70,000 for 2001. The census tract breakdown for Granite Savings Bank is as follows: 5 census tracts or 45.5 percent are designated as moderate-income; 5 census tracts or 45.5 percent are middle-income and 1 census tract or 9.0 percent is designated as NA. There are no low and upper-income census tracts within the assessment area.

Housing stock within the assessment area consists primarily of one-to-four family residential units of which 50.1 percent are owner-occupied. The median home value of the assessment area is \$187,186.

The Town of Rockport is located at the tip of Cape Ann and is surrounded by the Atlantic Ocean on three sides with the City of Gloucester on the fourth. It is located about 40 miles from Boston. The town is a well-known tourist attraction with many small retail shops and art studios. The major industry is tourism and Rockport supports

an active Chamber of Commerce. The population is 7,000 year round, but during the summer months that can escalate to as high as 20,000.

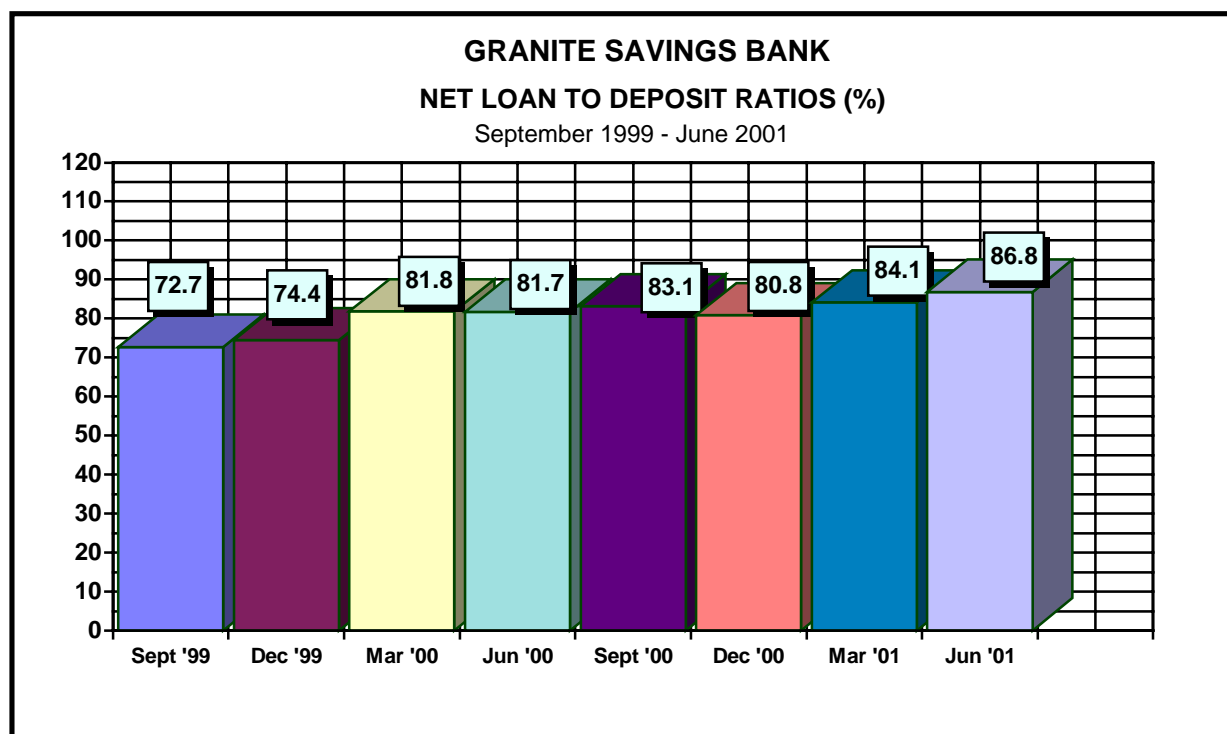
## **PERFORMANCE CRITERIA**

### **1. LOAN-TO-DEPOSIT ANALYSIS**

Granite Savings Bank's average net loan to-deposit ratio was determined to exceed the standards for satisfactory performance.

Granite Savings Bank's average net loan-to-deposit ratio was calculated by using the data reported in the previous eight quarterly FDIC Call Reports. This ratio is based on income net of unearned income and allowance for loan and lease losses, as a percentage of total deposits. The bank's average net loan-to-deposit ratio for the period September 30, 1999, through June 30, 2001, is 80.7 percent. During this time, net loans increased by approximately 22.1 percent, while deposits increased by approximately 2.3 percent. This is primarily the result of loan purchases by the institution. Simultaneously interest rates on deposit accounts have been at low levels.

The following graph depicts the net loan-to-deposit ratio for each quarter under review.



The ratio of net loan-to-deposits demonstrates an increasing trend through June 2001 with the exception of a slight decline in December 2000.

Granite Savings Bank sold 3 loans totaling \$447,856 in the secondary market year-to-date 2001.

Granite Savings Bank's net loan to deposit ratio was compared to the ratios of 4 other institutions within the assessment area. This comparison was based on the institutions' ratios as of June 30, 2001 and is presented in the following table.

INSTITUTION	NET LOAN TO DEPOSIT RATIO
Gloucester Co-operative Bank	87.1
<b>Granite Savings Bank</b>	<b>86.8</b>
Gloucester Bank & Trust Company	85.8
Rockport National Bank	83.1
Cape Ann Savings Bank	77.1

The financial institutions in the above table varied in asset size with Cape Ann Savings Bank (\$313.8 million in assets) being the largest and Granite Savings Bank (\$49.9 million in assets) being the smallest.

In conclusion, the bank's average net loan-to-deposit ratio of 80.7 percent is more than reasonable and exceeds the standards for a satisfactory rating given the bank's capacity to lend.

## 2. COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE OF THE ASSESSMENT AREA(S)

Based on the information below, the bank's level of lending within the assessment area exceeds the standards for satisfactory performance.

Granite Savings Bank's 1999, 2000 and year-to-date (July 31, 2001) Loan Application Registers (LARs) were reviewed to determine the amount of credit extended within the bank's delineated assessment area. During this period, the bank originated 111 HMDA-reportable loans totaling approximately \$17,284,000. Of this amount, 102 loans, or 91.9 percent of the number, totaling \$16,027,000, or 92.7 percent of the dollar amount, was originated in the bank's assessment area.

Refer to the following table for additional information.

Distribution of Home Mortgage Loans Inside and Outside the Assessment Area								
Year	Inside				Outside			
	Number of Loans		Dollar in Loans (000s)		Number of Loans		Dollars in Loans (000s)	
	#	%	\$	%	#	%	\$	%
<b>1999</b>	54	91.5	8,354	92.5	5	8.5	675	7.5
<b>2000</b>	19	90.5	3,228	93.9	2	9.5	210	6.1
<b>YTD 2001</b>	29	93.5	4,445	92.3	2	6.5	372	7.7
<b>Total</b>	102	91.9	16,027	92.7	9	8.1	1,257	7.3

Table 3: Source: HMDA LAR 1999, 2000 and year-to-date (7-31-01), CRA Wiz

The high percentage of HMDA-reportable loans made within its assessment area is an indication of the bank's commitment to meeting the credit needs of its assessment area.

### 3. DISTRIBUTION OF CREDIT AMONG BORROWERS OF DIFFERENT INCOME LEVELS

The bank's residential loans were further analyzed to determine the distribution of lending by borrower income level. The borrowers' reported incomes were compared to the median family incomes for the Boston MA-NH Metropolitan Statistical Area (MSA) based on the location of the property. The Boston MA-NH MSA Median Family Household Income (FHI) was \$62,700 for 1999, \$65,500 for 2000 and \$70,000 for 2001. These income figures are based on estimated Department of Housing and Urban Development (HUD) information.

Low-income is defined by the US Census Bureau as income below 50 percent of the median family income level for the MSA. Moderate-income is defined as income between 50 percent and 79 percent of the median family income level for the MSA. Middle-income is defined as income between 80 percent and 119 percent of the median income. Upper-income is defined as income equal to or greater than 120 percent of the median income.

The following table displays the number of HMDA-reportable loans granted to low, moderate, middle and upper-income borrowers in comparison to the number of family households within each respective income group.

Distribution of HMDA Loans by Borrower Income									
Median Family Income Level	Family Households (%of #)	1999		2000		YTD 2001		Total	
		#	%	#	%	#	%	#	%
Low	24.5	6	11.1	1	5.3	3	10.4	10	9.8
Moderate	22.2	11	20.4	4	21.0	7	24.1	22	21.6
Middle	26.1	14	25.9	6	31.6	13	44.8	33	32.3
Upper	27.2	23	42.6	8	42.1	6	20.7	37	36.3
Total	100.0	54	100.0	19	100.0	29	100.0	102	100.0

Table 4: Source: U.S. Census, HMDA LAR 1999, 2000 and year-to-date (7-31-01)

During the period reviewed, the bank extended 10 loans to low-income borrowers representing 9.8 percent by number and 5.9 percent by dollar amount of the total loans within the assessment area. This falls below the 24.5 percent of low-income households within the assessment area. However, mitigating factors include the number of people within these households collecting social security (30.8%), family households living below the poverty level (8.8%) and families receiving public assistance (7.1%). Opportunities for homeownership would be limited for such individuals.

The bank also extended 22 loans to moderate-income borrowers representing 21.6 percent by number and 15.9 percent by dollar amount of the total loans within the assessment area. The number of loans is comparable to the 22.2 percent of moderate-income households within the assessment area.

The distribution of the bank's loans among various borrower income levels was compared to that of all other HMDA-reportable lenders in the assessment area. Other HMDA-reporters include bank and non-bank entities such as large national banking companies, other local banks, credit unions and mortgage companies. The most recent data available for this analysis is for calendar year 1999 and is presented in the following table.

<b>Lending to Borrowers of Different Income Levels Granite Savings Bank Compared to All Other HMDA-Reporters</b>			
<b>Median Family Income Level</b>	<b>1999 Aggregate Lending Data</b>	<b>1999 Granite Savings Bank</b>	
	<b>% of #’s</b>	<b>#</b>	<b>%</b>
<b>Low</b>	6.4	6	11.1
<b>Moderate</b>	18.7	11	20.4
<b>Middle</b>	25.9	14	25.9
<b>Upper</b>	32.6	23	42.6
<b>NA</b>	16.4	0	0.0
<b>Total</b>	100.0	54	100.0

**Table 5:** Source: U.S. Census, 1999 HMDA LAR, 1999 HMDA Aggregate Data

The distribution of the bank's residential loans to low-income borrowers exceeds that of all other HMDA-reporters within the assessment area. The bank's percentage of lending to borrowers of low-income was 11.1 percent by number and 5.8 percent by dollar amount and exceeds that of the aggregate which made 6.4 percent of the number of loans and 3.1 percent of the dollar amount to low-income borrowers.

Similarly, Granite Savings Bank also exceeded the aggregate in terms of its moderate-income lending. The bank made 20.4 percent by number and 16.3 percent by dollar amount of loans to moderate-income borrowers within the assessment area. This percentage exceeds the aggregate, which granted 18.7 percent of total loans by number and 12.6 percent by dollar amount to moderate-income borrowers.

In 1999, Granite Savings Bank ranked 7th in lending to low and moderate-income borrowers within its assessment area. The bank originated 17 HMDA loans to borrowers in these income groups, capturing 3.4 percent of the market share. The top two lenders within the bank's assessment area were Cape Ann Savings Bank with 21.8 percent market share and Gloucester Co-operative Bank with 6.4 percent market share.

Granite Savings Bank's lending to borrowers of low and moderate-income income demonstrates a good responsiveness to the credit needs of such borrowers, especially in comparison to the aggregate, and given the size and resources of the bank. The bank is found to meet the standards for satisfactory performance in this regard.



#### 4. GEOGRAPHIC DISTRIBUTION OF LOANS

Based upon the analysis of the geographic distribution of loans, Granite Savings Bank's HMDA-reportable lending is considered to meet the standards for satisfactory performance.

The following table provides a breakdown by number of the bank's HMDA-reportable loans within its assessment area according to census tract income level. The table also compares the percentage of the bank's lending activity to owner-occupied housing units in each of the census tract income categories.

<b>Distribution of Residential Loans by Census Tract Income Category</b>									
<b>Census Tract Income Level</b>	<b>Owner-Occupied Housing Units (%)</b>	<b>1999</b>		<b>2000</b>		<b>YTD 2001</b>		<b>Total</b>	
		<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Moderate</b>	26.5	0	0.0	1	5.3	2	6.9	3	2.9
<b>Middle</b>	73.5	54	100.0	18	94.7	27	93.1	99	97.1
<b>Total</b>	100.0	54	100.0	19	100.0	29	100.0	102	100.0

**Table 6:** Source: U.S. Census, HMDA LAR 1999, 2000 and year-to-date (7-31-01)

As shown in the above table, 2.9 percent of the loans were made within moderate-income census tracts. This is well below the 26.5 percent of owner-occupied housing units within moderate-income tracts. It is also well below the percentage of moderate-income census tracts within the assessment area, which represent 45.5 percent of all tracts. Furthermore, the concentration of lending in middle-income census tracts (97.1%) surpasses the percentage of owner-occupied housing units (73.5%) as well as the percentage of middle-income census tracts (45.5 percent) within the assessment area. The high percentage of lending in the middle-income census tracts may be attributed to the bank's concentration of lending in Rockport. Over the period reviewed, 84.3 percent of home mortgage loans were originated in Rockport, which consists solely of one middle-income census tract. This volume skews the bank's lending levels in the middle-income census tracts.

A comparative analysis of Granite Savings Bank's lending performance in 1999 by census tract income category with all other HMDA-reporting lenders in the assessment area was also conducted. The bank had no lending activity in the moderate-income census tracts, while the aggregate originated 26.9 percent of the loans in this income category. The bank originated 100.0 percent of its loans in 1999 in the middle-income census tracts. The aggregate level was at 73.1 percent.

In conclusion, the bank's lending activity within its geographies is considered reasonable, given its location and therefore meets the standards for satisfactory performance.

## **5. REVIEW OF COMPLAINTS AND FAIR LENDING POLICIES AND PRACTICES**

The bank did not receive any complaints related to its CRA performance during the current review period.

Granite Savings Bank employs 13 full-time and 2 part-time employees. The bank has conducted no formal staff training during the time period covered by this examination. The bank utilizes its day to day contact with customers as its primary form of outreach and its marketing is accomplished through the local cable station and the Gloucester Daily Times. The bank currently refers delinquent borrowers to the Consumer Credit Counseling Services of Massachusetts (CCCS), but also counsels borrowers on an individual basis at the bank. To ensure consistency in underwriting practices, the bank has implemented a second review practice that requires all residential mortgage loan applications to be reviewed by the President/CEO and the Vice President/Mortgage Officer. The bank's HMDA data is reviewed monthly by the bank's Assistant Treasurer.

### **MINORITY APPLICATION FLOW**

A review of residential loan applications was conducted in order to determine the number of applications the bank received from minorities within the assessment area. For the period reviewed, the bank received 112 residential loan applications, 2 or 1.8 percent of which were received from minorities.

According to 1990 Census Data, the bank's assessment area contained a total population of 36,185 individuals, of which 1.5 percent are minorities. The minority population is 0.1 percent American Indian, 0.1 percent Asian, 0.2 percent Black, 1.0 percent Hispanic and 0.1 percent Other.

The bank's minority application flow for this period was compared with the 1999 aggregate data for all other HMDA reporters within the assessment area. Aggregate information indicated that 2.1 percent of applications were received from minorities within the assessment area in 1999. The bank's performance level was slightly below that of the aggregate at 1.7 percent.

# THE COMMONWEALTH OF MASSACHUSETTS

To the COMMISSIONER OF BANKS:

THIS IS TO CERTIFY, that the report of examination of the

## GRANITE SAVINGS BANK

for compliance with applicable consumer and fair lending rules and regulations and the Community Reinvestment Act (CRA), as of the close of business **September 10, 2001**, has been read to or by the undersigned and the matters referred to therein will have our immediate attention.

_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

A majority of the Board of Directors/Trustees

Dated at \_\_\_\_\_ this \_\_\_\_\_ day of \_\_\_\_\_ 20\_\_\_\_

# PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at (Address at main office)."

[Please Note: If the institution has more than one assessment area , each office (other than off-premises electronic deposit facilities) in that assessment area shall also include the address of the designated office for that assessment area.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agency, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.